DOCUMENT RESUME

ED 110 194 PS 007 990

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TITLE The Case for Public Subsidization of Child Care Services. Discussion Paper No. 234-74.
INSTITUTION Wisconsin Univ., Madison. Inst. for Research on Poverty.
SPONS AGENCY Office of Economic Opportunity, Washington, D.C.
PUB DATE Nov 74
NOTE 20p.

EDRS PRICE MF-$0.76 HC-$1.58 PLUS POSTAGE
DESCRIPTORS *Child Welfare; *Day Care Services; *Early Childhood Education; *Economically Disadvantaged; Economic Change; Economic Factors; Guaranteed Income; One Parent Family; Parent Education; Public Policy; *Public Support; Resource Allocations; Sex Discrimination; Taxes; Welfare Recipients; Working Women
IDENTIFIERS *Institute for Research on Poverty

ABSTRACT

This paper examined the case for public subsidization of child care services from the point of view of an economics theory. It was suggested that public subsidization could be justified either as a way to correct a distortion in resource allocation or as a way to change inappropriate income distribution. The allocative argument consisted of three issues: (1) whether subsidization of day care is the most economically efficient means for helping poverty children become "respectable" citizens, (2) how child care responsibilities cause discrimination against women when they choose to work outside the home and how changing the day care situation might help and, (3) whether a public role in day care is necessitated by parents' lack of knowledge about the quality and long term effects of the day care their children are receiving. The income distribution argument was discussed in terms of improving long-run economic opportunities for disadvantaged children and mending inequalities between families. Specific conclusions were drawn with regard to such day care issues as tax deduction, parent education, and welfare families. The general conclusion was that substantial public subsidization of day care did not seem justified on the basis of information now available. (JMB)

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234-74

INSTITUTE FOR RESEARCH ON POVERTY DISCUSSION PAPERS

THE CASE FOR PUBLIC SUBSIDIZATION OF CHILD CARE SERVICES

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THE CASE FOR PUBLIC SUBSIDIZATION OF CHILD CARE SERVICES

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November 1974

Support for this research was provided in part by funds granted to the Institute for Research on Poverty at the University of Wisconsin-Madison by the Office of Economic Opportunity pursuant to the Economic Opportunity Act of 1964. The author is indebted to R.J. Lampman, E. Smolensky, and B.A. Weisbrod for their valuable comments on an earlier draft. The views expressed and any error of fact or logic are solely the responsibility of the author.

ABSTRACT

Can a valid case for public subsidization of preschool child care be made? Do we really need such a case? These two questions are considered in this paper. Public subsidization may be justified either as a way to correct a distortion in resource allocation or as a way to change inappropriate income distribution. We analyze three cases of the former justification: external economies, market failure as a result of discrimination, incomplete knowledge; and two cases of the latter justification: improving long-run economic opportunities for disadvantaged children, and mending inequalities between families. These five cases do not imply providing free child care either for poor children or for all. However, there are valid arguments for more public involvement, especially for allowing the deduction of child care costs as work expenditures and the establishment of parent education programs.

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THE CASE FOR PUBLIC SUBSIDIZATION OF CHILD CARE SERVICES

I. INTRODUCTION

Modern economic history has been characterized by a continuous shift of various activities from the extended family to extrafamily organizations. These organizations might be private firms, government agencies, or nonprofit institutions. They all specialize in providing services that replace household activities. The current, seemingly increased, demand for day care centers seems to be only an extension of this trend. C.S. Bell [1970] claims that "...the chief household function that has not yet been replaced or even much diminished is child care, from birth to age six." If this is the case, locating this service in the public sector requires justification, and it is my belief that adequate justification has not yet been established.

On the other hand, it is clear that the effective private demand for improved child care has not increased as much as the pressure for public provision of such care.[1] If the increased numbers of working mothers and other families were willing to pay enough to cover the cost of improved day care, the market mechanism would in all probability have responded with an increased supply.

Most people who have supported increasing child care services assume, explicitly or implicitly, that larger public funding is called for. The economist's response probably would be, Do we have any reason to question the exclusive responsibility of parents for their preschool children's education and care?

A frequently used line of reasoning in support of public provision of child care is a mixture of normative views and positive analysis. This reasoning stems from the often heard claim that day care centers should be "provided" so families, or women, can make a rational (utility maximizing) choice.[2] However, public provision would be consistent with a rational choice only if--unless there were externalities involved--the families must pay the cost of these child care services. But private covering of the cost of child care usually is not accepted by those who make this public provision claim. If child care were subsidized, unless the reason for the subsidy were some source of inefficient resource allocation, the mother's choice might be rational, while it might not, and probably would not, be the most efficient choice from society's point of view.

It is true that if there is a shortage in availability of day care facilities, it should be corrected. But, is there a reason to suspect that the supply is inflexible to meet the increased demands? Is there a market failure? It seems that the increased demand does not take the form of increased effective demand; i.e., the effective private demand for paid day care services did not rise as much as the pressure for public "provision" of day care services.

Moreover, from a variety of current research reports, it is clear that families with working mothers are not willing--and "cannot afford"--to pay the annual $2000 per child price tag of developmental day care. Nelson and Krashinsky [1971] wrote: "It is apparent that many Americans believe that children of poor families ought to have better care than their parents will choose to, or can afford to, purchase and they are willing to back their beliefs with money."

Before I present a few possible arguments to support public subsidization of day care for preschool children, I would like to question the necessity for such a justification. As was claimed earlier, and as is evident from the quotation cited above, there is a wide spectrum of people who "feel" that publicly subsidized day care centers are a necessity. We may refer to such "feeling" as a type of revealed political preference and accept it as a sufficient explanation for the wide support for such subsidization that can replace economic justification. The problem with this approach is that the preference is not revealed through the market mechanism, and hence, does not necessarily reflect real preferences. Even if this wide political support is regarded as a sufficient rationale for public intervention, we are still left with the practical problems of how much public funding should be allocated to child care and how the publicly financed day care centers or other forms of extrafamily child care should be funded.

Public subsidization may be justified as a way to correct a distortion in resource allocation or to correct an inappropriate income distribution. The analysis here deals with three cases of the former and two of the latter.

II. CORRECTING DISTORTED RESOURCE ALLOCATION

In the case of preschool education and care, there are three possible reasons for market failure that may be thought to have led to the allocation of too few resources to day care.

A. External Economies

Educational research indicates that the early years are crucial in personality formation of children. If, and only if, this means that there

are externalities involved, the conclusion is that some measure of intervention by subsidization may be called for.

An explication of this argument, especially concerning the children of the poor, may take the following form: Once children have been born, it is in the interest of society that they become "respectable" members of that society regardless of the ability of their parents to pay for food, shelter, health care, and education. If much antisocial behavior stems from early failure and can be avoided through good preschool programs, then society at large, not just the children, will benefit when children have a good preschool experience. Do we have here an extra argument for subsidizing day care to young children, especially to children of the poor, on efficiency grounds? A minimal conception of what constitutes a respectable member of society could be that each adult member of the society be literate, i.e., have mastered a fifth-grade education. Whatever minimal education is necessary to make a respectable member of society, it is far beyond the level of preprimary education. If, and only if, the educational or developmental level of group day care is regarded as the most efficient way to assure that underprivileged children will indeed be able to obtain and master the accepted minimum, it will prove to be an argument for public support of day care facilities for the poor and other underprivileged children, on <u>efficiency grounds</u>. (Don't we use essentially the same argument for part of the justification for free primary and secondary education?) This argument may be extended a little further: Externalities from investing in human capital are significant enough to justify government subsidy for education far beyond a minimal level. Therefore, subsidizing preprimary education <u>to those who may not otherwise be able to acquire "enough" education</u> is obviously justified, as this is a necessary condition

for any education (This is true only if indeed it is a necessary condition for any education).

To carry this argument further, and apply it again to the general population rather than only to the poor, it is appropriate to mention that the decision to start (free) public education by the age of five or six is as arbitrary as it is to start it by the age of three (or one, for that matter). Moreover, there is some evidence supporting the notion that the earlier we start, the better off we are,[3] but this is still debatable.[4] When budget constraints are tight, it may be beneficial to lower the age of free education at both ends, i.e., start free public schooling by the age of three, but end it by the age of sixteen.

This external economies argument for early child care and education is contingent upon a few disputed contentions. First, there is no consensus among child development experts that early group care is indeed so beneficial for young children. The evidence of research on development of the very young points out that achievement is related to the strength of the attachment between the parents (or adults) and the children. One of the advocates of federal provision of child care services to underprivileged children, Professor Bettye M. Caldwell [1972] wrote: "Another study supports the finding that young children in day care were in no way cognitively harmed by their experience." A consensus that early group child care will not harm children would not be a strong justification for public provision, but even this consensus does not exist.

The second contention is related to the terms "deprived" or "underprivileged" children. If these terms are euphemisms for children of poverty-stricken families, the apparent solution is to supplement the family's income, while letting family members take care of their children.

If it stands for abused children, the children are protected under existing laws that should be enforced if necessary, but do not imply necessarily wide use of day care centers. If it stands for children whose parents are uninformed about how to rear them, a program of parental education is called for--subject to a benefit-cost test. According to some recent evidence, such programs have positive impacts on the children's cognitive and other abilities; these impacts last for a longer period than any other compensatory program. Moreover, the cost involved is only a fraction of that of group child care services.[5]

In sum, from the existing evidence it is hard to accept a strong allocative argument to justify a public role in early childhood education and care. When and if the state of knowledge of child development provides an accepted view that there are significant externalities involved in early group child care and education, it will be plausible to try to analyze which type is more appropriate. Intuitively, the more significant such externalities, the higher the likelihood that such care should be provided to all children, not merely the children of the poor.

B. Sex Discrimination

Usually we assume that it is the mother who must make a (rational) choice between extrafamily child care and employment versus household activities. The fact that this choice is usually considered to be the wife's and not the husband's (or that of both) may be an indicator of a market failure--a result of discrimination against women. Availability of day care centers might help to reduce this market imperfection, but it could not eliminate discrimination against women, if this discrimination were the source of the market failure. It might, however, be a "second-best" solution that would

take care of the effect without dealing with the cause. Thus, a larger supply of day care facilities would enable mothers to more freely make a "rational" decision, and might further the equality of men and women in making free choices, eventually reducing inequality in wages. This line of reasoning justifies, at the minimum, regarding day care costs as work expenses and therefore allowing deductibility for income tax purposes or for determining eligibility for income support.[6]

There is a related equity issue to this deductibility of child care expenses. The higher the earning potential of the mother, the greater her opportunity cost for staying at home and the greater the value of her child care deductions. This is justified on efficiency grounds. However, there may be an inequity among women: The market failure that resulted from sex discrimination may have weakened or been eliminated for women in high-income brackets while remaining unchanged for low-income mothers. Apparently, allowing the deduction of child care so as to correct for the market failure that results from sex discrimination is a weak second best.

C. Incomplete Knowledge

Incomplete knowledge in two different areas may call for public intervention. First, if parents do not know the long-run impact of group child care, some public information or parent education should be provided. As was pointed out, and as has been emerging from the contradictory results of the evaluation of corrective programs like Head Start, there is no consensus about the long-run value of educational group child care among child development experts. Therefore, information or education programs have not been justified, as long as the benefits, or harms, involved in such programs are not agreed on by these experts.

The second area of incomplete knowledge may arise from the fact that parents cannot judge what quality of child care their children actually receive. This amounts to a special type of market failure. Consumer choice is defective as an evaluation device. It cannot reward the "best" competitor and fails to guide profit-motivated suppliers of child care. Nelson and Krashinsky [1971, pp. 31-42], who mentioned this point first, conclude that this special market failure calls for public supervision, regulation, and subsidization of day care centers operating in the nonprofit sector. In the current context this conclusion is threefold: the regulation and supervision can be justified on these grounds as well as by existing child protection laws; the subsidization seems to be a non sequitur; and the manner of organizing the delivery of child care services is a separate issue that does not belong in this discussion.

III. CORRECTING INCOME DISTRIBUTION

There are two equity issues that may be considered justification for some subsidization of preschool child care.

A. Equitable Distribution of Income

The equitable (optimal) distribution of income is not based on positive economic analysis; a normative view toward the desired income distribution is called for. We tend to accept as desirable a distribution that offers equality of economic and social opportunity, or at least a distribution that will enable everyone to achieve a certain accepted minimum of such opportunity. If this indeed is the goal, any policy that contributes to an increase in equality of opportunity would be desirable (up to the point where marginal social costs equal marginal social benefits). Hence, up to some cost, if better education and care for underprivileged, deprived,

and poor preschool children contributes to better opportunities for them in the future, equity considerations would dictate subsidizing day care services for these children. Such considerations seem to lie behind the Comprehensive Preschool Education and Child Care bills (S-2007, S-3193, S-3228, S-3617).

Even though this distributive argument differs from the first allocative argument, its validity hinges on the same considerations. Will early child care and education contribute to better opportunities for children of the poor in the future? The answer depends on the same factors that will determine whether an investment in educating these children will help them to develop from social misfits as children to respectable and productive adults. As has been indicated, however, there is no consensus among child development experts with regard to the long-term benefits of child care.

B. Income Inequities Between Families

Another impact that subsidized child care may have on the income distribution is an immediate one, i.e., on the income of the families who receive such subsidies versus those who do not. This is related to the "getting welfare mothers off the welfare rolls" attitude.[7] Child care subsidy and deductibility are proposed in the income maintenance programs, but the rationale behind it is not to correct inappropriate income distribution but to enable mothers to work. The case for public subsidization in this context stems from political beliefs and not from a desire to correct the income distribution.

A special distribution case for subsidization of child care stems from the one-parent versus two-parent families. The typical one-parent family is a mother with children. The loss or absence of one of the

parents no doubt causes deprivation for the children--especially for preschool children. It is hard to exaggerate the importance of this setback in all areas including the economic one. The absence of the conventional main breadwinner (the male) amounts to having an income of thousands of dollars less per year than an equivalent two-parent family. AFDC was designed primarily to provide an answer for such a setback. Under H.R.1 mothers who are heads of families would be required to seek paid employment if they did not have children under the age of three. Such a work requirement amounts to adding hardship to those among the poor who are pressed the most. Granted, if it were not for some kind of welfare, these mothers would have to work regardless of the availability of child care. But, while AFDC recognizes the special needs of one-parent families by usually giving them aid, which two-parent families are not eligible to receive, the work requirement included in H.R.1 (which is accompanied by subsidized child care) fails to offer a favorable treatment to one-parent families.

So, other things being equal, a one-parent family is much worse off than a two-parent family with the same money income. This may also be an equity argument for subsidization of child care for those mothers who head families and would like to work and be economically independent. Discussion of the kind and size of the subsidy is beyond the scope of this article. But full deductibility of child care expenses from these families' income, for either income tax liability or income support eligibility, is justified. This, to be sure, cannot compensate fully for the economic loss inflicted by the absence of one parent.

IV. CONCLUSIONS AND POLICY IMPLICATIONS

It is hard to defend subsidizing day care only for the poor. Providing public day care to welfare mothers in order to get them to work creates inequities and fails on economic grounds. While provision of child care is related to redistribution, ignoring the other related aspects would give an unsatisfactory solution. We could not find any justification for providing free child care or an income-conditioned tuition fee. However, there are valid arguments for some public intervention in preschool education and care for all families.

Education and developmental benefits of day care probably will be attained by part-time (say half-day) institutions, which are much lower in cost. A half-day nursery school may not give mothers equal freedom to pursue their careers, but it will increase their freedom to choose part-time employment (and may eventually change work habits and the availability of employment for women). As long as it is accepted that children's fates concern their parents even if they are poor, a family income maintenance program will be seen as containing child welfare elements. As shown, the policy of getting welfare mothers to work will create inequities; it is not a sound economic policy and may harm their children. The inevitable questions are, Will those who favor getting welfare women out to work be willing to pay up to an annual $2000 per child for women who may have two or three children, who may in turn earn $3000 if they are lucky enough to find a job? On what grounds can we justify a work requirement for welfare mothers with young children? As was found in Day Care Survey [1970], middle-income families are not willing to spend that amount on extrafamily child care. The programs embodied in H.R.1, S-3617, and the Committee on Finance version of H.R.1,[8] all have planned to start providing

the poor with services that are regarded as either unobtainable or undesirable by higher income groups who have to pay for them. The poor are required under H.R.1 to consume subsidized child care of greater value than they would choose if they could improve their situation and transcend the poverty line. By adopting H.R.1 or any similar legislation, society may be patronizing the poor by providing and requiring them to use child care beyond that used by middle-income families.

In summary:

1. When child development experts are able to estimate the potential benefits to young children, these benefits should be tested against the costs involved for the whole population and for the poverty population. The appropriate policy should be adopted according to these tests. Justification for substantial subsidization of group child care for preschoolers on educational grounds has yet to be established.

2. Child welfare is implicitly a concern of every guaranteed minimum income plan. Requiring the poor to use group child care as a precondition for income support is neither sound economic policy nor sound social policy. The net result will be increased inequity, while many welfare mothers will resist joining the labor force. The combination of a high income guarantee with high marginal tax rates will serve as a disincentive to work.

3. Income-conditioned provision of preschool child care (as in S-3617) will be either very costly or inequitable, and probably both. Such subsidization, when added to an income maintenance program will, in all probability, increase welfare costs beyond the value of the additional production of the welfare mothers who might find paid employment.

4. Increasing employment opportunities for women and removing part of the harsh fates of mothers who head families provide a strong case

for deduction of the cost of child care as work expenditures. Such deductibility is justified both for determining eligibility for income support and for determining taxable income. On efficiency grounds it seems advisable to eliminate an income ceiling for deducting child care expenses.

5. While it is shown that correcting income distribution through income-conditioned subsidization of child care is both inefficient and inequitable, more and more evidence point toward justifying subsidization of parent education programs for underprivileged families. A program of educating parents is likely to cost less than any child care program, although it will fail to help those mothers who prefer to look for a job.

6. Once the issue of public subsidization is decided, we can turn to the delivery mechanism; one way is through downward extension of the public school system to include younger children. Another, which is implied in S-3617, is to deliver the service through local nonprofit agencies with an emphasis on parent cooperation and government regulation. These delivery mechanisms were deliberately left out of this study, as we tried to pose the more basic and initial problems.

NOTES

1. G. Shifron [1972], Chapters II and III.

2. For a similar reasoning, see Carolyn S. Bell [1970], pp. 160-166.

3. This view is found in the literature quite often, and is often attributed to Professor Bloom of the University of Chicago. See B. Bettelheim's testimony in Comprehensive Preschool Education and Child Day Care Act of 1969, pp. 538-557, also B. Caldwell's testimony in the same publication, pp. 331-344, and her article therein, "The Rationale for Early Intervention," also in Head Start, Child Development Legislation [1972], pp. 146-165.

4. U. Bronfenbrenner [1972] apparently changed his mind, not so much with regard to the merit in early intervention as the policy implications. In this latter article he advocated early intervention through educating parents as the most promising approach. R.S. Moore and D.R. Moore [1972], are even more extreme, by claiming that "early schooling" will in all likelihood cause more harm than good, they too advocate parent education. D. Meers and Van Der Haag express similar views with more vigor in Head Start, Child Development Legislation [1972], pp. 3-20. The same view is found (among different views) in Stanely [1972]. These references are very sketchy, but they serve to illuminate that the subject matter of the value or harm in extrafamily child care for young children is far from settled. The only consensus is that the early years are crucial for child development, and care by a loving adult (usually the mother) is necessary for later lasting cognitive achievements as well as for personality formation.

5. Voice for Children (August 1972), p. 5. Also U. Bronfenbrenner [1972], summarizes the policy implications out of a series of recent studies. See also, J.C. Stanely, ed. [1972].

6. The deductions allowed under the Internal Revenue Act of 1971 for employment-related child care are: Two parent families are allowed to deduct $2400 per child for one child, $3600 for two, and $4800 for three or more, provided their joint income is up to $18,000 a year; beyond that 50 percent deductions are allowed for incomes up to $27,000.

7. A detailed discussion of this attitude may be found in Schultze [1972] Ch. 8, in Shifron [1972], Chs. II and VI, and in Hunt & Craig [1972].

8. As analyzed in detail in Shifron [1972] Ch. VI, such services are already provided under current arrangements of AFDC, but only to a very small segment of families in poverty.

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